

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>LAKE MICHIGAN SHORELINE WATER &amp; SEWA</b>	County <b>BERRIEN</b>
Audit Date <b>11/4/05</b>	Opinion Date <b>11/4/05</b>	Date Accountant Report Submitted to State: <b>12/9/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

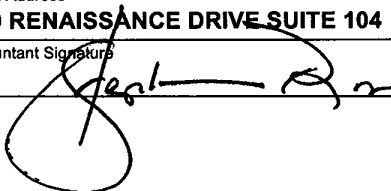
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>BARNES &amp; ROSS CPA</b>			
Street Address <b>500 RENAISSANCE DRIVE SUITE 104</b>		City <b>SAINT JOSEPH</b>	State <b>MI</b>
		ZIP <b>49085</b>	
Accountant Signature 		Date <b>12/9/05</b>	

LAKE MICHIGAN SHORELINE  
WATER AND SEWAGE TREATMENT AUTHORITY

FINANCIAL STATEMENTS

JUNE 30, 2005

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## INDEPENDENT AUDITORS' REPORT

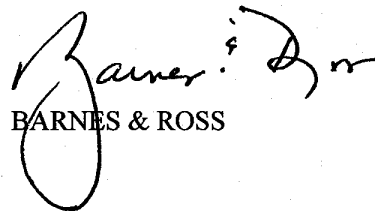
Board of Trustees  
Lake Michigan Shoreline Water & Sewage Treatment Authority  
Saint Joseph, MI

We have audited the accompanying basic financial statements of the Lake Michigan Shoreline Water and Sewage Treatment Authority as of and for the year ended June 30, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Lake Michigan Shoreline Water and Sewage Treatment Authority as of June 30, 2005, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplementary information presented on page 14 are not a required part of the basic financial statements, but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain procedures, which consisted principally of inquiries of management, regarding methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

  
BARNES & ROSS

November 4, 2005

LAKE MICHIGAN SHORELINE WATER AND SEWAGE TREATMENT AUTHORITY  
GOVERNMENTAL FUND BALANCE SHEET  
AND STATEMENT OF NET ASSETS  
JUNE 30, 2005

	<u>General Fund Modified Accrual Basis</u>	<u>Adjustments</u>	<u>Statement of Net Assets, Full Accrual Basis</u>
Assets:			
Current assets:			
Cash	\$ 112,413	\$ -	\$ 112,413
Prepaid expenses	<u>1,729</u>	<u>-</u>	<u>1,729</u>
Total current assets	114,142	-	114,142
Non-current assets:			
Capital assets, net	<u>-</u>	<u>30,221</u>	<u>30,221</u>
Total assets	<u>\$ 114,142</u>	<u>\$ 30,221</u>	<u>\$ 144,363</u>
Liabilities:			
Accounts payable	\$ 22,036	\$ -	\$ 22,036
Fund balance/net assets:			
Fund balance:			
Unreserved, undesignated	<u>92,106</u>	<u>(92,106)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 114,142</u>	<u>(92,106)</u>	<u>22,036</u>
Net assets:			
Invested in capital assets		30,221	30,221
Unrestricted		<u>92,106</u>	<u>92,106</u>
Total net assets		<u>122,327</u>	<u>122,327</u>
Total liabilities and net assets		<u>\$ 30,221</u>	<u>\$ 144,363</u>

The accompanying notes are an integral part of these financial statements.

LAKE MICHIGAN SHORELINE WATER AND SEWAGE TREATMENT AUTHORITY  
STATEMENT OF GOVERNMENTAL REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005

	General Fund Modified Accrual Basis	Adjustments	Statement of Activities, Full Accrual Basis
Revenue:			
Contributions from other governmental units	\$ 142,500	\$ -	\$ 142,500
Interest income	707	-	707
Other revenue	500	-	500
	<u>143,707</u>	<u>-</u>	<u>143,707</u>
Total revenue			
Expenditures:			
Compensation	10,300	-	10,300
Engineering	41,719	-	41,719
Insurance	3,909	-	3,909
Professional fees	8,116	-	8,116
Repairs and maintenance:			
General	26,182	-	26,182
Mowing	5,500	-	5,500
Office supplies	1,325	-	1,325
Capital outlay	30,883	(30,883)	-
Utilities	15,962	-	15,962
Telephone	2,699	-	2,699
Depreciation	-	662	662
Miscellaneous	4,243	-	4,243
	<u>150,838</u>	<u>(30,221)</u>	<u>120,617</u>
Total expenditures			
Excess (deficiency) of revenue over expenditures	<u>(7,131)</u>	<u>30,221</u>	<u>23,090</u>
Fund balance/net assets - beginning	97,914	-	97,914
Add: Prior period adjustment	1,323	-	1,323
	<u>99,237</u>	<u>-</u>	<u>99,237</u>
Fund balance/net assets adjusted - beginning			
Fund balance/net assets - ending	<u>\$ 92,106</u>	<u>\$ 30,221</u>	<u>\$ 122,327</u>

The accompanying notes are an integral part of these financial statements.

LAKE MICHIGAN SHORELINE  
WATER AND SEWAGE TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

A. REPORTING ENTITY.

The Lake Michigan Shoreline Water and Sewage Treatment Authority constitutes a reporting entity as defined in GASB Statement 1. The Authority is incorporated under the provisions of Act 233 of the Public Acts of Michigan of 1955. The purpose of the Authority is to acquire, improve, extend and operate a water supply and sewage disposal system for the benefit of the residents of the Townships of St. Joseph, Lincoln, Royalton and the Villages of Shoreham and Stevensville.

B. FUND ACCOUNTING.

The accounts of the Authority are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operation of each fund or account group is summarized by providing a separate set of self-balancing accounts, which includes their assets, liabilities, fund balance, revenues and expenditures.

The Authority maintains only one fund. The General Fund is the general operating fund for the Authority and is used to account for all financial resources.

C. BUDGET AND BUDGETARY ACCOUNTING.

The Board prepares and adopts an annual budget for the Authority's proposed revenues and expenditures for the next fiscal year. Budgets are submitted by each member municipality on or before January 1 of each calendar year and must be approved by resolution of each member municipality.

Budget amounts are reported in the financial statements as originally adopted or as amended by the Authority Board.

LAKE MICHIGAN SHORELINE  
WATER AND SEWAGE TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2005

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Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED.

D. USE OF ESTIMATES.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION.

The Authority's basic financial statements include both government-wide (reporting on the Authority as a whole) and fund financial statements (reporting on the Authority's major fund).

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using economic resources measurement focus as the basis of accounting. Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the cash flows.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded with a liability is incurred, as under accrual accounting.



LAKE MICHIGAN SHORELINE  
WATER AND SEWAGE TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2005

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Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONCLUDED.

The Authority reports only one major governmental fund – the General Fund.

F. FINANCIAL STATEMENT AMOUNTS.

Bank Deposits and Investments – The Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Capital Assets – Capital assets are defined by the Authority as assets with an initial cost of more than \$500 and an estimated life of more than one year. Such assets are recorded at historical cost if purchased or constructed. Other costs incurred for repair and maintenance are expenses as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	40 years
Improvements	15-20 years

Note 2. RECONCILIATION.

The General Fund's fund balance and the net change in fund balance differ from net assets and change in net assets reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the economic focus of the statement of the General Fund balance sheet and statement of revenue, expenditures, and changes in fund balances. The following is a reconciliation of fund balance to the net change in net assets:

LAKE MICHIGAN SHORELINE  
WATER AND SEWAGE TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2005

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Note 2. RECONCILIATION –CONCLUDED.

Total Fund Balance- Modified Accrual Basis	\$ 92,106
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Amounts reported in the statement of net assets  
are different because:

Capital assets are not financial resources and are not reported in the funds	<u>30,221</u>
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Total net assets – full accrual basis	\$ <u>122,327</u>
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Net Change in Fund Balances – Modified Accrual Basis	\$ (7,131)
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Amounts reported in statements of activities are  
different because:

General Fund reports capital outlay as expenditures in  
the statement of activities; these costs are allocated  
over their useful lives as depreciation:

Building and improvements	30,883
Depreciation	<u>( 662)</u>

Change in net assets – full accrual basis	\$ <u>23,090</u>
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LAKE MICHIGAN SHORELINE  
WATER AND SEWAGE TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2005

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Note 3. DEPOSITS.

Deposits are carried at cost. Deposits are at one bank in the name of Lake Michigan Shoreline Water and Sewage Treatment Authority. Act 217, P.A. 1982, authorizes the Authority to deposit and invest in the accounts of federally insured banks, insured credit unions, savings and loan associations and bonds and other direct obligations of the United States. Michigan law prohibits security in the form of collateral, surety bond, or other forms for the deposit of public money. An Attorney General's opinion state that the public funds may not be deposited in financial institutions that do not have branch location in Michigan. The Authority's deposits are in accordance with statutory authority at June 30, 2005.

The carrying amount of the Authority's deposits with financial institutions was \$112,533 and the bank balance was \$112,533. The bank balance is categorized as follows:

Amount insured by F.D.I.C.	\$100,000
Amount in excess of F.D.I.C.	<u>12,533</u>
Total deposits	<u>\$112,533</u>

Note 4. WATER SERVICE AGREEMENT.

The Lake Michigan Shoreline Water and Sewage Treatment Authority executed an agreement to provide water from the City of St. Joseph for sale to users located within the corporate limits of the Authority's members. The agreement also provides for a surcharge to be collected on the gross revenue and is retained by the Authority members.

LAKE MICHIGAN SHORELINE  
WATER AND SEWAGE TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2005

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Note 5. RISK MANAGEMENT.

The Authority is exposed to various risks of loss related to property, loss, torts, errors and omissions and employee injuries (workers' compensation). The Authority has purchased commercial insurance to provide coverage for such claims.

Note 6. ACCOUNTING AND REPORTING CHANGE.

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The Lake Michigan Shoreline Water and Sewage Treatment Authority has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The Authority has elected only to implement the general provisions of the statement. Certain significant changes in the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities.
- Capital assets in the governmental activities column of the Statement of Net Assets include assets totaling \$30,883 that would have been previously reported in the General Fixed Asset Account Group. The township has elected not to retroactively record infrastructure assets.

LAKE MICHIGAN SHORELINE  
WATER AND SEWAGE TREATMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS – CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2005

Note 7. CAPITAL ASSETS.

Capital assets activity of the Authority's governmental activities was as follows:

	Balance <u>July 1, 2004</u>	<u>Additions</u>	Balance <u>June 30, 2005</u>
Governmental activities:			
Capital assets being depreciated:			
Building	\$ -	\$ 23,119	\$ 23,119
Improvements	<u>-</u>	<u>7,764</u>	<u>7,764</u>
Total	-	30,883	30,883
Accumulated depreciation:	<u>-</u>	<u>662</u>	<u>662</u>
Net capital assets	<u>\$ -</u>	<u>\$ 30,221</u>	<u>\$ 30,221</u>

Note 8. PRIOR PERIOD ADJUSTMENT.

Insurance was previously recognized as an expense when the premium was paid. Under the modified accrual basis of accounting, insurance expenses can be expensed in the period incurred or as they are paid. A prior period adjustment was made to recognize prepaid insurance in the amount of \$1,323.

Note 9. SUBSEQUENT EVENT.

In order to meet the future water and sewage needs of the members of the Authority, the Authority is pursuing the construction of two water towers. The estimated cost of these water towers is 4 to 6 million dollars and will be financed through a bond issue.

LAKE MICHIGAN SHORELINE WATER AND SEWAGE TREATMENT AUTHORITY  
REQUIRED SUPPLEMENTAL INFORMATION  
GENERAL FUND-BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Amended Budget</u>
Revenue:				
Contributions from other governmental units	\$ 142,500	\$ 142,500	\$ 142,500	\$ -
Interest income	-	-	707	707
Other revenue	-	-	500	500
Total revenue	<u>142,500</u>	<u>142,500</u>	<u>143,707</u>	<u>1,207</u>
Expenditures:				
Compensation	12,000	12,000	10,300	(1,700)
Engineering	35,000	45,000	41,719	(3,281)
Insurance	3,500	2,750	3,909	1,159
Professional fees	25,000	10,000	8,116	(1,884)
Repairs and maintenance:				
General	50,000	30,000	26,182	(3,818)
Mowing	6,000	6,000	5,500	(500)
Office supplies	1,000	4,000	1,325	(2,675)
Capital outlay	-	26,500	30,883	4,383
Utilities	7,500	15,500	15,962	462
Telephone	2,000	3,000	2,699	(301)
Miscellaneous	500	1,550	4,243	2,693
Total expenditures	<u>142,500</u>	<u>156,300</u>	<u>150,838</u>	<u>(5,462)</u>
Excess (deficiency) of revenue over expenditures	<u>-</u>	<u>(13,800)</u>	<u>(7,131)</u>	<u>6,669</u>
Fund balance - beginning	97,914	97,914	97,914	-
Add: Prior period adjustment	<u>1,323</u>	<u>1,323</u>	<u>1,323</u>	<u>-</u>
Fund balance - adjusted beginning	<u>99,237</u>	<u>99,237</u>	<u>99,237</u>	<u>-</u>
Fund balance - ending	<u>\$ 99,237</u>	<u>\$ 85,437</u>	<u>\$ 92,106</u>	<u>\$ 6,669</u>

The accompanying notes are an integral part of these financial statements.



November 28, 2005

To the Members of the Board  
Lake Michigan Shoreline Water and Sewage Treatment Authority  
Saint Joseph, MI 49085

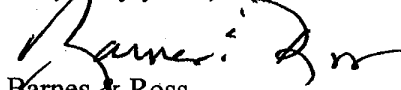
In connection with the audit of the Authority's financial records for the year ended June 30, 2005 we offer the following comments and recommendations:

1. Cancelled checks are required for proper audit procedures as well as by the Local Audit Division of the State of Michigan. The photocopies do not provide enough information for audit procedures. Cancelled checks should be requested from the bank.
2. With the large amount of future expenditures on capital assets, it is extremely important that the authority review the articles of incorporation regarding dissolution. In most authorities that operate similar to the LMSW&STA, the assets are owned and recorded on the books of the authority. An ownership interest according the contributions is then recorded on the books of the individual members of the authority.
3. The budget should follow the format required by the Uniform Budget Act when it is submitted for adoption to the Board (noted 6/30/03 and 6/30/04).
4. The fund balance amount should be reclassified to the retained earnings account and then the retained earnings account name should be changed to "fund balance" (noted 6/30/03 and 6/30/04).

This report is intended solely for the information and use of the Authority Board, its management and the State of Michigan's Local Audit Division.

We appreciate the courtesy and cooperation extended to us by the officials of the Authority. If you have any questions or need assistance with any other matters, please feel free to contact us.

Very truly yours,

  
Barnes & Ross